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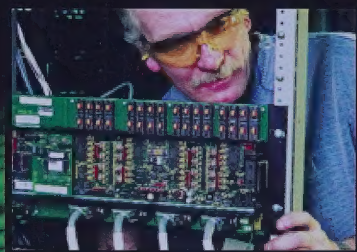
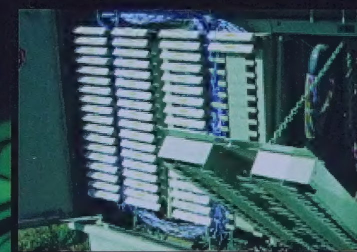
Inventronics Limited

Annual Report 2004

Designing and Manufacturing Custom Metal Enclosures





Inventronics Limited

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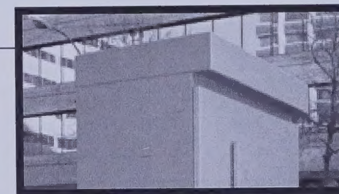
Inventronics *is a contract manufacturer that provides outsourced services in the design, manufacture and integration of sophisticated metal enclosures for the communications, electronics and other industries.*



Inventronics adds value

As a supply chain partner, Inventronics adds value by providing a variety of essential services including design, procurement, prototyping, manufacturing, assembly, testing, third-party certification and distribution.

The 35-year-old Company owns and operates a world-class, ISO 9001: 2000-registered manufacturing facility in Brandon, Manitoba that produces **a diverse range of metal enclosures** and related products for customers throughout North America. The Brandon facility's commitments to quality and customer service have enabled it to serve as an outsource partner and supplier for decades to some of the world's largest and most demanding communications and electronics companies.

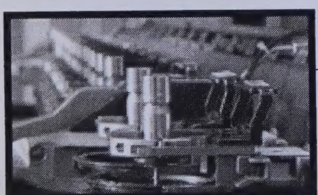
To broaden its customer and revenue base beyond the **telecommunications industry,** Inventronics now offers its enclosure products and services to additional industries including cable television, traffic controls, electric utilities, computer server storage, and energy resources.

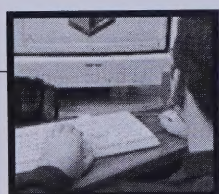
Five-Year Financial Highlights

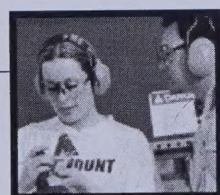
($000's, except per share figures)	***2004***	*2003*	*2002*	*2001*	*2000*
OPERATING PERFORMANCE					
Sales	**$ 13,706**	$ 13,951	$ 25,567	$ 37,625	$ 46,457
EBITDA before restructuring costs	**$ 403**	$ 449	$ 113	$ (69)	$ 3,057
Operating earnings (loss)	**$ (395)**	$ (459)	$ (899)	$ (1,971)	$ 2,419
Net earnings (loss)	**$ (2,620)**	$ (1,505)	$ (7,376)	$ (4,295)	$ 1,305
BALANCE SHEET DATA					
Working capital	**$ (673)**	$ 334	$ 1,352	$ 405	$ 8,704
Capital assets	**$ 6,586**	$ 7,473	$ 8,168	$ 10,778	$ 9,901
Long Term Debt	**$ 4,669**	$ 4,801	$ 5,053	$ 3,819	$ 2,792
Shareholders' equity	**$ 1,404**	$ 3,965	$ 5,388	$ 12,494	$ 16,999
COMMON SHARE DATA					
Basic earnings (loss) per share	**$ (0.38)**	$ (0.22)	$ (1.07)	$ (0.62)	$ 0.39
Diluted earnings (loss) per share	**$ (0.38)**	$ (0.22)	$ (1.07)	$ (0.62)	$ 0.27
Book value per share	**$ 0.20**	$ 0.58	$ 0.78	$ 1.82	$ 2.44
Common shares outstanding at year end	**6,975,726**	6,875,726	6,875,726	6,875,726	6,963,933

THE YEAR 2004 saw stability come to the segment of the communications industry served by Inventronics. The decline in sales volumes experienced over the prior two years ceased with unit volume slightly exceeding 2003. The continued slide in the value of the United States dollar versus the Canadian dollar resulted in a modest overall sales value decline of 2%. Inventronics' largest source of revenue is from the communication market in the United States, and denominated in US dollars.

Margins came under increasing pressure over the course of the year as commodity steel prices soared. The resultant increase in cost of sales when combined with the currency effect produced operating losses that were only slightly improved from the prior year.







secure new opportunities

In light of the market conditions, the following actions were taken. First was the renegotiation of the contract with Inventronics' largest customer to provide for price adjustments, which effectively share the change in currency and commodity steel prices. These changes took effect late in the year, and will continue into the future, providing a partial hedge against further changes in these costs.

The next action was the elimination of a letter of credit outstanding to the bank of a former subsidiary. This contingent liability had presented an obstacle to financing options, and was an ongoing risk to the balance sheet. It was settled without impairing current cash resources by trading a note receivable from the former subsidiary for the letter of credit.

The third key action was to restructure our subordinated debt through the issue of common shares. This arrangement, which was closed in March 2005, reduced the debt obligation to a manageable level given the outlook for the Corporation. Significant in the reorganization was the reduction in the rate of interest from 17% to 8%, and the provision for a single principle payment upon maturity at the end of 2007.

The final piece of this restructuring was the reduction in administrative costs through the transfer of most administrative functions from the Calgary office to the Brandon plant early in 2005. The simplification of the financing structure and certain personnel changes in Brandon enabled this administrative consolidation.

The changes in interest rate and administrative consolidation are expected to reduce costs by more than $1,000,000 per year.

Beginning in the second quarter of 2004, an enhanced marketing and sales process was implemented to identify and pursue new markets that fit the changed economic and operating conditions. Through this work, we identified Alberta as the best location to pursue new business for Inventronics. With a market profile now in hand, a steady and concerted sales effort is underway to build business servicing Alberta market segments such as controls, electric power and communications. New companies have already been added to the Inventronics list of customers, and a heightened awareness of the company has been established in this marketplace.

The outlook for 2005 is positive with a steadily growing customer base, reduced cost structure, improved outlook for the communications industry, more stable exchange rates, retreating commodity steel costs and a healthier balance sheet.

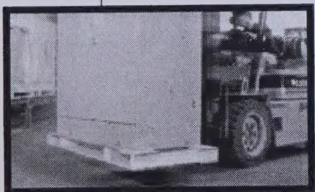
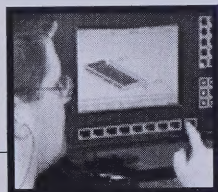
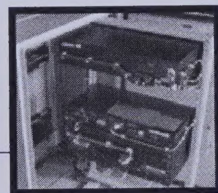
It has taken a lot of commitment and determination on the part of Inventronics' employees to bring the Company to this time where the outlook is brightening. I sincerely thank each of them for their efforts throughout 2004.

Respectfully submitted on behalf of Inventronics Limited.

Dan J. Stearne

President and Chief Executive Officer

MD&A

OVERVIEW

Inventronics Limited designs and manufactures custom metal enclosures and related products for the communications, electronics and other industries in North America. The metal enclosures and related products are used in outdoor or indoor applications to house and protect passive and/or active components. These products are custom designed and manufactured to suit the needs of each customer for each application. In many circumstances, the customer's components are incorporated into the enclosures, which are delivered directly to the end user, providing a complete outsourcing service.

The following discussion and analysis presents the results from operations of the Corporation for the years ended December 31, 2004 and 2003. The majority of the Corporation's revenues are generated through the sale of finished enclosures to one principal customer, which accounted for approximately 79% of the Corporation's 2004 sales.

Comparison of the years ended December 31, 2004 and 2003

SALES

Sales for the year ended December 31, 2004 were $13.7 million compared to almost $14.0 million for the prior year ended December 31, 2003. The unit volume of enclosures and related products increased in 2004, but this is not reflected in the sales value due to the effects of the declining US dollar. More than 70% of Inventronics' sales are denominated in US currency, and the continuing US dollar decline reduced revenues and net income by approximately $700,000 in 2004 and by $1 million in 2003.

Emphasis on growing Inventronics' sales outside of its principal telecommunications market and within Canada is continuing. The awareness of Inventronics in non-telecom markets has increased dramatically in 2004 through a very focussed marketing and sales program directed at identifying opportunities principally within Alberta and Manitoba. The number of non-telecom purchasers of enclosures and related products is gaining momentum and increases in sales to these customers are projected for 2005.

In the fourth quarter of 2004, the Corporation renegotiated certain terms of its supply contract with its largest customer to include provisions for the sharing of price fluctuations in the cost of steel and changes in the US dollar exchange. This will significantly mitigate the risk associated with these items.

COST AND EXPENSES

Cost of sales as a proportion of sales increased in 2004 to 90%, compared to 86% in 2003. This change was the result of dramatic increases in the cost of steel, which is the Corporation's principle raw material, and the devaluation of the US dollar. Steel costs began to stabilize near the end of 2004 and are expected to remain at elevated levels for the foreseeable future. Price increases to recover the effect of these rising costs have been and will continue to be worked into the marketplace as opportunities are identified. Efficiency gains through the application of certain Lean Management principles also helped to offset some of the negative effects of the steel cost increases.

Restructuring charges of almost $1.3 million were recognized in the fourth quarter of 2004. The majority of these charges relate to the write-off of a long-term receivable in the amount of $753,000 due from the Corporation's former subsidiary. This transaction was the result of an arrangement with the banker for the former subsidiary, whereby the Corporation eliminated its $1.1-million loan guarantee and contingent liability in exchange for writing off the long-term receivable. The remaining balance of the restructuring charges relate to contract termination costs and the writedown of certain leaseholds and computer software assets no longer in use.

Selling and administrative spending was reduced 36% in 2004, resulting in total costs of $984,000 compared to $1.5 million for the prior year. Management has taken an aggressive stance on aligning these costs with sales over the past couple of years – reducing them by 54% from December 31, 2002. Further actions were taken at the end of 2004, which will result in savings of an additional $500,000 in 2005.

Interest costs increased to $952,000 in 2004 from $803,000 in 2003 as a result of the compounding effect of the 17% rate on capitalized interest relating to the $3.5 million of subordinated promissory notes. Cash resources in 2004 were insufficient to satisfy the current interest cost of the notes and therefore all related interest was accrued, with the agreement of the note holders.

NET LOSS

The net loss for the year ended December 31, 2004 amounted to $2.6 million or 38 cents per share compared to a net loss of $1.5 million or 22 cents per share for the year ended December 31, 2003. The continuing decline of the US dollar against the Canadian dollar, coupled with the dramatic rise in steel costs during the year, significantly reduced operating margins. These factors combined with the settlement of a contingent liability drove the 2004 net loss.

LIQUIDITY AND CAPITAL RESOURCES

The Corporation's working capital position decreased from $334,000 at December 31, 2003 to a deficit of $673,000 at December 31, 2004. Current projections incorporating the benefit of the debt restructuring described in the subsequent event note to the financial statements indicate that working capital will return to a positive level as 2005 progresses.

SUBSEQUENT EVENT

On March 8, 2005, the shareholders of the Corporation approved a debt restructuring arrangement with the Corporation's subordinated promissory note holders as described in Note 16. The restructuring provides for the issuance of 15,000,000 common shares from treasury at a price of $0.15 per share in exchange for amendments to the promissory notes aimed at significantly reducing the Corporation's borrowing costs and overall debt obligations. This agreement results in a change of control of the Corporation, with the note holders owning 68% of the issued and outstanding shares.

RISK FACTORS

The success of the Corporation is dependent on a number of factors. These factors include the ability to manage and adequately finance operations; the Canadian dollar exchange rates; the need to satisfy changing and increasingly complex customer requirements; dependence on a small number of customers and a limited number of key personnel and suppliers; and competition from companies with greater resources.

SELECTED ANNUAL & QUARTERLY FINANCIAL HISTORY

Annual Information

For the Years Ended December 31 ($000's except per share amounts)	**2004**	2003	2002
Sales	**$ 13,706**	$ 13,951	$ 25,567
EBITDA before restructuring costs	**403**	449	113
Loss from continuing operations	**(2,620)**	(1,505)	(4,958)
Net loss	**(2,620)**	(1,505)	(7,376)
Total assets	**9,625**	11,394	13,693
Total liabilities	**8,221**	7,429	8,305
Basic and diluted loss per share	**(0.38)**	(0.22)	(1.07)
Book value per share	**0.20**	0.58	0.78

Quarterly Information

For the Quarters Ended ($000's except per share amounts)	**December 31, 2004**	**September 30, 2004**	**June 30, 2004**	**March 31, 2004**
Sales	**$ 3,310**	**$ 3,695**	**$ 3,437**	**$ 3,264**
EBITDA before restructuring costs	**(155)**	**181**	**226**	**151**
Net loss	**(1,886)**	**(267)**	**(198)**	**(269)**
Basic and diluted loss per share	**(0.27)**	**(0.04)**	**(0.03)**	**(0.04)**

	December 31, 2003	*September 30, 2003*	*June 30, 2003*	*March 31, 2003*
Sales	$ 3,682	$ 3,457	$ 3,531	$ 3,281
EBITDA before restructuring costs	149	188	155	(43)
Net loss	(273)	(475)	(266)	(491)
Basic and diluted loss per share	(0.04)	(0.07)	(0.04)	(0.07)

The significant downturn in the telecom industry, which began in 2001, forced Inventronics to dispose of its UK subsidiary, Eurocraft Enclosures Limited of Dudley, England, in 2002. Eurocraft had been acquired in 2001 for the strategic purposes of serving Inventronics' largest North American-based customer in the United Kingdom, diversifying Inventronics' customer base; and increasing Inventronics' overall sales and income. The Corporation also closed its Sherwood Park facility in October 2002 (transferring all production to Brandon, Manitoba) and refinanced its balance sheet in November 2002.

Management's Report

The accompanying consolidated financial statements of Inventronics Limited and all information in this report are the responsibility of Management of the Corporation and have been approved by the Board of Directors. Management prepared the financial statements based on the information available in accordance with generally accepted accounting principles. The financial statements and other financial information have been prepared using the accounting policies described in Note 1 to the financial statements and reflect Management's best estimates and judgements. Financial information presented throughout this report is consistent with data presented in the financial statements.

A system of internal accounting control is maintained in order to assure, on a reasonable and cost effective basis, the reliability of this financial information. This system includes established policies and procedures, the selection and training of qualified personnel and an organisation providing for appropriate delegation of authority and segregation of responsibilities.

The Board of Directors discharges its duties related to the financial statements by reviewing and discussing financial information prepared by Management and through the activities of its Audit Committee. The Committee meets with Management to assure that it is performing responsibly to maintain financial controls and systems and to review the financial statements of the Corporation. The Audit Committee also meets with the independent auditors to discuss the audit approach, the review of internal accounting controls and the results of their audit examination prior to recommending its approval of the financial statements.

The shareholders' auditors, Deloitte & Touche LLP, Chartered Accountants have examined the financial statements, and their report is presented herein.

Dan J. Stearne
President and Chief Executive Officer

Robert P. Brookwell
Chief Financial Officer

March 9, 2005

Auditors' Report

To the Shareholders of Inventronics Limited

We have audited the consolidated balance sheets of Inventronics Limited as at December 31, 2004 and 2003 and the consolidated statements of loss and deficit and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2004 and 2003 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants

Calgary, Canada

March 9, 2005

Consolidated Balance Sheets

(All dollar amounts expressed in thousands of Canadian dollars)

	December 31, 2004	December 31, 2003
ASSETS		
Current		
Cash and cash equivalents	**$ 58**	$ –
Accounts receivable *[note 2]*	**1,520**	1,616
Inventories *[note 3]*	**1,201**	1,239
Prepaid expenses	**49**	52
	2,828	2,907
Capital assets *[note 4]*	**6,586**	7,473
Other assets *[note 5]*	**211**	1,014
	$ 9,625	$ 11,394

	December 31, 2004	December 31, 2003
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Bank operating loan *[note 6]*	**$ 1,150**	$ 588
Accounts payable and accrued charges *[note 7]*	**1,564**	1,409
Current portion of long-term debt *[note 8]*	**787**	576
	3,501	2,573
Long-term debt *[note 8]*	**4,669**	4,801
Other deferred liabilities	**51**	55
	8,221	7,429
SHAREHOLDERS' EQUITY		
Share capital *[note 9]*	**14,506**	14,447
Deficit	**(13,102)**	(10,482)
	1,404	3,965
	$ 9,625	$ 11,394

See accompanying notes

On behalf of the Board:

Gerald D. Pint
Director

Dan J. Stearne
Director

Consolidated Statements of Loss and Deficit

(All dollar amounts expressed in thousands of Canadian dollars)	***December 31, 2004***	*December 31, 2003*
Sales	**$ 13,706**	$ 13,951
Costs and expenses		
Cost of sales	**12,319**	11,963
Selling and administration	**984**	1,539
Depreciation and amortization	**798**	908
	14,101	14,410
Operating loss	**(395)**	(459)
Restructuring charges *[note 12]*	**1,258**	234
Interest expense – Current	**66**	22
– Long term	**886**	781
Income tax expense *[note 11]*	**15**	9
Net loss	**(2,620)**	(1,505)
Deficit, beginning of the year	**(10,482)**	(8,977)
Deficit, end of the year	**$ (13,102)**	$ (10,482)
Basic and diluted loss per share *[note 10]*	**$ (0.38)**	$ (0.22)

See accompanying notes

Consolidated Statements of Cash Flows

(All dollar amounts expressed in thousands of Canadian dollars)	***December 31, 2004***	*December 31, 2003*
Operating activities		
Net loss	**$ (2,620)**	$ (1,505)
Items not involving cash *[note 13]*	**2,523**	1,306
Changes in non-cash working capital balances *[note 13]*	**291**	113
	194	(86)
Financing activities		
Repayment of capital lease obligations	**(576)**	(562)
	(576)	(562)
Investing activities		
Acquisition of capital assets	**(127)**	(214)
Funding of other asset	**–**	(789)
Proceeds on disposal of capital assets	**5**	3
	(122)	(1,000)
Decrease in cash and cash equivalents	**(504)**	(1,648)
Cash and cash equivalents, beginning of the year	**(588)**	1,060
Cash and cash equivalents, end of the year *[note 13]*	**$ (1,092)**	$ (588)

See accompanying notes

1. SIGNIFICANT ACCOUNTING POLICIES

The Corporation and its inactive, wholly owned subsidiaries (collectively, the "Corporation") design and manufacture custom enclosures and related products for the communications, electronics and other industries in North America. Since the measurement of certain assets and liabilities is dependent upon future events, the preparation of these consolidated financial statements requires the use of estimates, which may vary from actual results. Such estimates have been made using careful judgements, which in Management's opinion, are within reasonable limits of materiality and conform to the following significant accounting policies. These significant accounting policies are presented to assist the reader in evaluating the financial results and, together with the following notes, should be considered an integral part of the consolidated financial statements.

Principles of consolidation

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and include the accounts of the Corporation and its inactive, wholly owned subsidiaries. Significant intercompany transactions and balances, of which there are none, would be eliminated in these consolidated financial statements.

Change in Accounting Policy

On January 1, 2004, the Corporation adopted new accounting standards for impairment of long-lived assets, which establishes the standards for recognition, measurement and disclosure of the impairment of long-lived assets. The standards require that long-lived assets be tested for recoverability whenever events or circumstances indicate that carrying value may not be recoverable. No impairment loss has been recognized in the statement of loss for the year ended December 31, 2004.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, cash balances with banks and short-term investments, which approximate the fair value of amounts shown in the financial statements. All highly liquid investments with original maturities of three months or less are classified as cash and cash equivalents.

Inventories

Finished goods and work in progress are stated at the lower of manufacturing cost and net realizable value. Manufacturing cost includes the cost of raw material, labour costs, and applicable production overheads. Raw materials are stated at the lower of cost determined on a first-in, first-out basis, and replacement cost.

Leases

Leases are classified as capital or operating. Leases, which transfer substantially all of the benefits and risks incident to ownership of property, are accounted for as capital leases. Assets acquired under capital leases are amortized on a straight-line basis over the estimated life of the asset or the lease term, as appropriate. All other leases are accounted for as operating leases and the related payments are charged to expenses as incurred.

Capital assets

Capital assets are recorded at cost less accumulated depreciation and amortization. Capital assets are assessed for possible impairment of value on an ongoing basis. Depreciation and amortization of the original cost is provided on a straight-line basis over the estimated useful life for each asset, with the amortization period not to exceed the following:

Buildings	40 years
Machinery and equipment	15 to 20 years
Furniture and fixtures	10 to 20 years
Computer equipment	3 to 5 years
Leasehold improvements	Term of lease

Financial instruments

The Corporation's financial instruments consist of accounts receivable, bank indebtedness, accounts payable, accrued liabilities and long-term debt. The carrying values of these assets and liabilities are considered to approximate fair value unless otherwise disclosed. The Corporation is exposed to interest rate risk arising from fluctuations in interest rates on its temporary investments and short-term obligations.

The Corporation is exposed to credit risk with respect to certain accounts receivable; however, the majority of receivables are with large multi-national customers transacted under formal contractual arrangements. The Corporation follows a program of credit evaluations of customers, and limits the amount of credit extended when deemed necessary. The Corporation maintains provisions for potential credit losses, and any such losses to date have been within Management's expectations.

The Corporation is exposed to foreign exchange risk related to rate fluctuations associated with accounts receivable and accounts payable. The Corporation periodically assesses its hedging requirements in relation to its export revenues, which are principally denominated in US dollars.

Revenue recognition

Revenue is recognized upon shipment of manufactured goods to the customers. In limited circumstances, revenue may be recognized on a progress-billing basis when it relates to specific design or engineering services. The related costs of sales are comprised of manufacturing costs, including materials, labour, overhead and design service costs.

Income taxes

Future income tax liabilities and future income tax assets are recorded based on temporary differences between the carrying amount of balance sheet items and their corresponding tax basis. In addition, the future benefits of income tax assets including unused tax losses are only recognized to the extent that it is more likely than not that such losses will be ultimately utilized. All future income tax assets and liabilities are measured using enacted tax rates and laws that are expected to apply when the tax liabilities or assets are to be either settled or realized.

Earnings (loss) per share

Earnings (loss) per share is calculated using the treasury stock method, which assumes that the proceeds received upon the assumed exercise of all stock options and warrants outstanding in the year are used to repurchase the Corporation's shares at the average share price during the period.

Stock option plan

Effective January 1, 2003, the Corporation accounts for its stock-based compensation plan using the fair value method of valuing the stock options granted, and as such, the values are expensed as compensation costs in the income statement and credited to shareholders equity.

Foreign currency translation

Monetary assets and liabilities of the Corporation denominated in foreign currencies are translated at the exchange rates in effect at the balance sheet dates. Revenues and expenses are translated at approximate exchange rates prevailing at the time the transaction occurred. Exchange gains and losses are recognized in the current period earnings.

2. ACCOUNTS RECEIVABLE

	December 31, 2004	December 31, 2003
Trade receivables	$ 1,424	$ 1,549
Government excise taxes	92	63
Income taxes recoverable [note 11]	4	4
	$ 1,520	$ 1,616

While the Corporation sells its products to numerous customers, the major customer referred to in Note 15 represented 73% of the December 31, 2004 accounts receivable balance (December 31, 2003 – 62%).

3. INVENTORIES

	December 31, 2004	December 31, 2003
Finished goods	$ 294	$ 83
Work-in-progress	43	163
Raw materials	864	993
	$ 1,201	$ 1,239

4. CAPITAL ASSETS

	December 31, 2004		December 31, 2003	
	Cost	Accumulated depreciation	Cost	Accumulated depreciation
Land	$ 6	$ –	$ 6	$ –
Buildings	1,726	711	1,711	668
Machinery and equipment	9,347	3,987	9,264	3,485
Furniture and fixtures	241	91	241	71
Computer equipment	1,137	1,082	1,664	1,279
Leaseholds	–	–	117	27
	$ 12,457	$ 5,871	$ 13,003	$ 5,530
Net book value	$ 6,586		$ 7,473	

Included in machinery and equipment are assets acquired under capital lease at a cost of $3,915 (December 31, 2003 – $3,915) with accumulated depreciation of $1,056 (December 31, 2003 – $839).

5. OTHER ASSETS

	December 31, 2004	December 31, 2003
Long-term receivable [note 12]	$ –	$ 746
Deferred financing costs	211	268
	$ 211	$ 1,014

The value of the 1,715,000 warrants granted to the subordinated promissory note holders as described in Note 9 has been reflected as deferred financing costs and is being amortized on a monthly basis over the remaining term of the notes.

6. BANK CREDIT FACILITIES

At December 31, 2004, the Corporation had the following credit facility agreements:

Demand revolving operating credit facility

This facility has an authorized limit of $1,250 (or the equivalent in US dollars) available by way of prime-based loans, banker's acceptances, letters of credit or guarantee, bearing interest at bank prime plus 2.0% per annum resulting in an effective rate of 6.25% at December 31, 2004 (December 31, 2003 – 7.25%). The balance outstanding on this facility at December 31, 2004 was $1,150 (December 31, 2003 – $533).

As collateral for this facility, the Corporation has pledged a fixed and floating charge debenture in the amount of $3,000 with a fixed charge on certain of its manufacturing plant assets, an assignment of its accounts receivable and book debts and a general security agreement. This credit facility contains restrictive covenants and for December 31, 2004 the Corporation was in compliance with these covenants. At December 31, 2003 the lender had waived the default of compliance with certain of these covenants.

7. ACCOUNTS PAYABLE AND ACCRUED CHARGES

	December 31, 2004	*December 31, 2003*
Trade payables	**$ 1,321**	$ 1,187
Accrued employee costs	**243**	217
Other payables and accruals	**–**	5
	$ 1,564	$ 1,409

8. LONG-TERM DEBT

	December 31, 2004	*December 31, 2003*
Subordinated promissory notes with a five-year term, bearing interest at the rate of 17% per annum, 14% paid monthly and 3% accrued, which is payable at maturity. The principal is repayable in quarterly instalments of $175 in arrears commencing December 2005 and the remaining balance is due December 31, 2007.	**$ 3,500**	$ 3,500
Accrued interest of 3% compounded quarterly at 17% on the outstanding balance of the subordinated promissory notes. All interest for 2004 on the subordinated promissory notes has been accrued in accordance with the letter agreement terms dated April 26, 2004.	**1,028**	373
Capital leases bearing interest at fixed rates ranging from 5.2% to 10.3% per annum with remaining payment terms of up to 20 months.	**928**	1,504
	5,456	5,377
Less current portion	**(787)**	(576)
	$ 4,669	$ 4,801

Principal payments due on long-term debt, other than obligations under capital leases, are as follows:

2005	175
2006	700
2007	3,653
	$ 4,528

Future minimum capital lease payments are as follows:

2005	$ 667
2006	324
	991
Less imputed interest	(63)
	$ 928

9. SHAREHOLDERS' EQUITY

An unlimited number of common shares are authorized for issue.

	December 31, 2004		December 31, 2003	
	Shares		*Shares*	
Balance, beginning of the year	**6,875,726**	**$ 14,447**	6,875,726	$ 14,365
Issued as compensation for note amendments	**100,000**	**27**		–
Fair value of stock options granted		**32**		27
Warrant repricing		**–**		55
Balance, end of the year	**6,975,726**	**$ 14,506**	6,875,726	$ 14,447

On May 21, 2004, the Corporation issued 100,000 shares at the then current market price of $0.27 per share to the subordinated promissory note holders as consideration for certain amendments to the note terms. On April 26, 2004, the Corporation and the note holders agreed to amend the note terms to permit all interest for fiscal 2004 to be accrued until maturity.

At December 31, 2004, the Corporation had 1,715,000 share purchase warrants outstanding. These warrants were originally issued November 22, 2002, in conjunction with the issuance of $3,500 of subordinated promissory notes as discussed in Note 8. Each warrant entitles the holder to purchase one common share at an exercise price of 22 cents at any time on or before the fifth anniversary of the issue.

The Corporation has a stock option plan for the benefit of employees and directors. Under the plan, the Corporation may grant options, up to an authorized limit of 700,000, to its employees and directors for the purchase of common shares. The exercise price of each stock option is equal to the last closing market price of the Corporation's common shares on the date of grant, and the maximum period during which an option may be exercised is 10 years. The plan provides for vesting on the basis of one-third immediately and the remainder at a rate of one-third on each of the following two grant date anniversaries with certain exercise restrictions related to the market trading price of the shares at the time of exercise. Options granted prior to fiscal 2000 vested either immediately or on the basis of 20% per year over a five-year period and expire as outlined below or, in certain circumstances, on termination of services to the Corporation.

A summary of the Corporation's stock option plan is as follows:

	December 31, 2004		December 31, 2003	
	Share quantity	**Weighted average price**	*Share quantity*	*Weighted average price*
Outstanding, beginning of the year	**637,434**	**$ 0.67**	592,434	$ 1.68
Granted	**60,000**	**0.22**	395,000	0.26
Expired or cancelled	**(30,000)**	**0.52**	(350,000)	1.90
Outstanding, end of the year	**667,434**	**$ 0.64**	637,434	$ 0.67

The fair value of stock options recognized at December 31, 2004 was $32 (December 31, 2003 – $27) as determined using a modified Black-Scholes option-pricing model. This model employs a risk-free interest rate ranging from 4.0% to 4.9%, option life of ten years, expected future volatility of 70% and no dividends were assumed. The resultant fair values of stock options granted have been recognized as compensation costs within the current period.

The following options to purchase common shares were outstanding as at December 31, 2004:

Option price per share range	Weighted average price	Outstanding quantity	Weighted average price	Exercisable quantity
\$ 0.19 – \$ 0.49	\$ 0.26	440,000	\$ 0.26	335,000
\$ 0.50 – \$ 0.74	0.64	73,334	0.64	73,334
\$ 0.75 – \$ 0.99	0.83	123,100	0.83	123,100
\$ 1.00 – \$ 6.60	5.32	31,000	5.32	31,000
	\$ 0.67	667,434	\$ 0.94	562,434

10. LOSS PER SHARE

	December 31, 2004	December 31, 2003
Common shares outstanding	**6,975,726**	6,875,726
Weighted average common shares	**6,937,370**	6,875,726
Diluted shares outstanding	**9,358,160**	9,228,160
Diluted weighted average common shares	**9,312,286**	8,952,913

For the years ended December 31, 2004 and 2003, diluted loss per share does not differ from the basic loss per share since the conversion of outstanding stock options and warrants would have an anti-dilutive effect.

11. INCOME TAXES

	December 31, 2004	December 31, 2003
Income taxes at Canadian statutory rates (including provincial taxes)	**\$ (691)**	\$ (568)
Differences from statutory rates relating to:		
Benefit of non-capital losses not recognized	**691**	568
Expenses not deductible for tax purposes	**3**	6
Capital taxes	**24**	24
Other	**(12)**	(21)
Income tax expense	**\$ 15**	\$ 9
The income tax expense is comprised of:		
Capital tax expense	**\$ 15**	\$ 9

Realization of future income tax assets is dependent upon generating sufficient future taxable income during the period in which the temporary differences are deductible. At December 31, 2004, the realization of future income tax assets remains uncertain and therefore these amounts have not been recognized. The Corporation has non-capital losses of approximately \$6,498 expiring in 2008 through 2014. In addition, the Corporation has capital losses of approximately \$5,366 available to offset future capital gains, the benefit of which has not been recorded in the accounts.

12. RESTRUCTURING CHARGES

	December 31, 2004	*December 31, 2003*
Employee termination and other costs	**$ 262**	$ 234
Writedown of capital assets	**243**	–
Write-off of long-term receivable	**753**	–
	$ 1,258	$ 234

On October 29, 2004 the Corporation agreed to forgive its loan receivable from Eurocraft Enclosures Ltd., a former wholly owned subsidiary, in exchange for the cancellation of the letter of credit and guarantee issued by the Corporation in support of Eurocraft's long-term debt obligation to its bank. This transaction eliminates the contingent liability and results in an aggregate restructuring charge of $753 for the write-off of the receivable.

On December 22, 2004, the Corporation announced a plan to restructure its administration, wherein the majority of its financial and administrative functions will be transferred from the Calgary, Alberta corporate office to the Brandon, Manitoba office. This administrative restructuring results in employee termination costs and the write-down of certain office leasehold and software costs totalling $505.

13. SUPPLEMENTARY CASH FLOW INFORMATION

	December 31, 2004	*December 31, 2003*
Items not involving cash:		
Depreciation and amortization	**$ 846**	$ 961
Accrued interest on subordinated promissory notes	**656**	320
Fair value of stock options granted	**32**	27
Gain on disposal of capital assets	**–**	(2)
Non-cash restructuring costs	**989**	–
	$ 2,523	$ 1,306
Changes in non-cash working capital balances:		
Accounts receivable	**$ 96**	$ 346
Inventories	**38**	231
Prepaid expenses	**3**	45
Accounts payable and accrued charges	**154**	(509)
	$ 291	$ 113
Breakdown of cash and cash equivalents (bank indebtedness):		
Cash	**$ 58**	$ –
Operating loan	**(1,150)**	(533)
Outstanding cheques	**–**	(55)
	$ (1,092)	$ (588)
Supplemental disclosure of cash paid for:		
Interest	**$ 170**	$ 460
Income taxes	**$ 18**	$ 27

14. OPERATING LEASE COMMITMENTS

The minimum annual operating lease payments are as follows:

2005	$ 46
2006	39
2007	7
	$ 92

15. SEGMENTED INFORMATION

The Corporation operates within one segment comprising the design and manufacture of custom enclosures and related products for the communications, electronics and other industries in North America.

Significant portions of the Corporation's sales were to, or made with the assistance of, a major international customer through a formal supply agreement. This company has been a customer of the Corporation for more than 30 years and Management is of the opinion that this relationship will continue. For the year ended December 31, 2004, this customer accounted for approximately 79% of the Corporation's revenue (December 31, 2003 – 81%).

16. SUBSEQUENT EVENT

On March 8, 2005, the shareholders of the Corporation approved a debt restructuring arrangement with the Corporation's subordinated promissory note holders. The restructuring provides for the issuance of 15,000,000 common shares from treasury at a price of $0.15 per share in exchange for: (a) the conversion of accrued interest outstanding on the notes to February 28, 2005; (b) the reduction of the interest rate from 17% per annum to 8% per annum effective March 1, 2005; (c) the removal of accrued interest on the notes and all compounding of interest; (d) the deletion of the default rate of interest; (e) the elimination of quarterly principal repayments in favour of a single final payment on December 31, 2007; (f) restructuring fees applicable to the transaction; (g) the cancellation of the 1,715,000 share purchase warrants currently outstanding to the note holders as described in Note 9. This agreement will be recognized in the first quarter of 2005 and result in a restructuring charge of $1,377 and an $873 increase in Shareholders' Equity. It also results in a change of control of the Corporation, with the note holders owning 68% of the issued and outstanding shares.

17. COMPARATIVE FIGURES

Certain 2003 comparative figures have been reclassified to conform to the current year's presentation.

BOARD MEMBERSHIP AND INDEPENDENCE

Three of the five members of Inventronics' Board of Directors, including the Chairman, are considered to be unrelated directors. None has an interest, business or other relationship that could be perceived to interfere with his ability to act in the best interests of Inventronics and its shareholders. The related directors are Dan Stearne, President and CEO of Inventronics, and Julian Remedios, Partner of Mercantile Bancorp Limited, the agent representing Inventronics' subordinated debt lenders.

In addition to having a majority of unrelated directors, there are additional practices in place which assure the Board of its independence from Management:

- the Board and its committees are all chaired by unrelated directors;
- the Governance Committee is composed exclusively of unrelated directors;
- a majority of the members of the Audit Committee and the Compensation Committee are unrelated directors;
- a portion of committee agenda items are mandatory and recurring; and
- a portion of all Board meetings are held with no Management personnel present.

BOARD MANDATE

The Board's mandate is to provide direction for the appropriate stewardship of Inventronics, and to act in the best interests of its stakeholders. The Board conducts its activities in accordance with:

- the Canadian Business Corporations Act;
- Inventronics' articles of incorporation and bylaws;
- Inventronics' Code of Conduct; and
- other applicable Company policies.

The Board approves all significant decisions that affect the Company before they are implemented. In addition, all major corporate plans, including strategic plans, business development plans, and succession plans are reviewed and approved by the Board.

Directors fulfill their roles by preparing and attending regularly scheduled meetings of the Board and its committees. At the meetings, directors receive and review Management-prepared reports concerning Inventronics' business operations and financial performance.

GOVERNANCE COMMITTEE

The Governance Committee, composed exclusively of non-management directors, a majority of whom are unrelated directors, is responsible for developing and monitoring Inventronics' overall governance principles, recommending any changes and approving the Company's disclosures in response to the Toronto Stock Exchange's Corporate Governance Guidelines. The Committee evaluates the effectiveness of the Board, committees and individual Directors.

AUDIT COMMITTEE

The Audit Committee, chaired by an unrelated professionally qualified director, is responsible for reviewing audit functions and recommending for approval to the Board all public disclosure information. The Committee makes inquiries to ensure that Management has effective internal control systems in place, and meets with the auditors with and without Management present on a quarterly basis.

MORE INFORMATION

More information about Inventronics' corporate governance practices, including responses to each of the TSX's Corporate Governance Guidelines, refer to the Investor Relations section at **www.inventronics.com.**

DIRECTORS

Gerald D. Pint
Chairman
Retired Executive
3M Company

Donald H. Penny
Retired Chairman
Meyers Norris Penny, Chartered Accountants

Julian F. Remedios
Partner
Mercantile Bancorp Limited

Dan J. Stearne
President and CEO
Inventronics Limited

Alan R. Wiggan
Retired Executive
Parallel Strategies

OFFICERS

Dan J. Stearne
President and CEO
Inventronics Limited

Robert P. Brookwell
Chief Financial Officer
Inventronics Limited

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ANNUAL AND SPECIAL MEETING

June 20, 2005 at 11:00a.m. (PST)
At the Offices of
McCullough O'Connor Irwin
#1100, 888 Dunsmuir Street
Vancouver, British Columbia
Canada V6C 3K4

BANKERS

Mercantile Bancorp Limited
Royal Bank of Canada

REGISTRAR AND TRANSFER AGENT

Computershare Trust Company of Canada

AUDITORS

Deloitte & Touche LLP

LEGAL COUNSEL

Burnet, Duckworth & Palmer LLP

STOCK EXCHANGE LISTING

The TSX Venture Exchange
Stock Symbol: IVT

Inventronics Limited

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